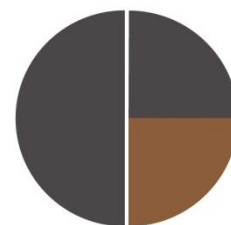


PORTFOLIO UPDATE AND FINANCIAL PLANNING NEWS



POLITIS
INVESTMENT STRATEGIES

June Quarter 2018

Market Movements

Data	30-Jun-18	Qtrly Change	FYTD Change
S&P ASX 200	6,195	7.6%	8.3%
Dow Jones Industrial Average	24,271	0.7%	13.7%
S&P 500	2,718	2.9%	12.2%
Nasdaq	7,510	6.3%	22.3%
STOXX Europe 600	380	2.4%	0.1%
Japan Nikkei 225	22,305	5.4%	11.3%
VIX Index (Volatility)	16.09	-19.4%	43.9%
AUD/USD Exchange Rate	0.7389	-3.7%	-3.7%
Australian 10 Year Gov't Bond Yield	2.64%	5.9 bps	14.3 bps
US 10 Year Gov't Bond Yield	2.85%	11.2 bps	58.3 bps
Gold Price (Spot)	1,251.30	-5.4%	0.9%
Crude Oil Brent Price (Spot)	79.44	13.0%	65.8%

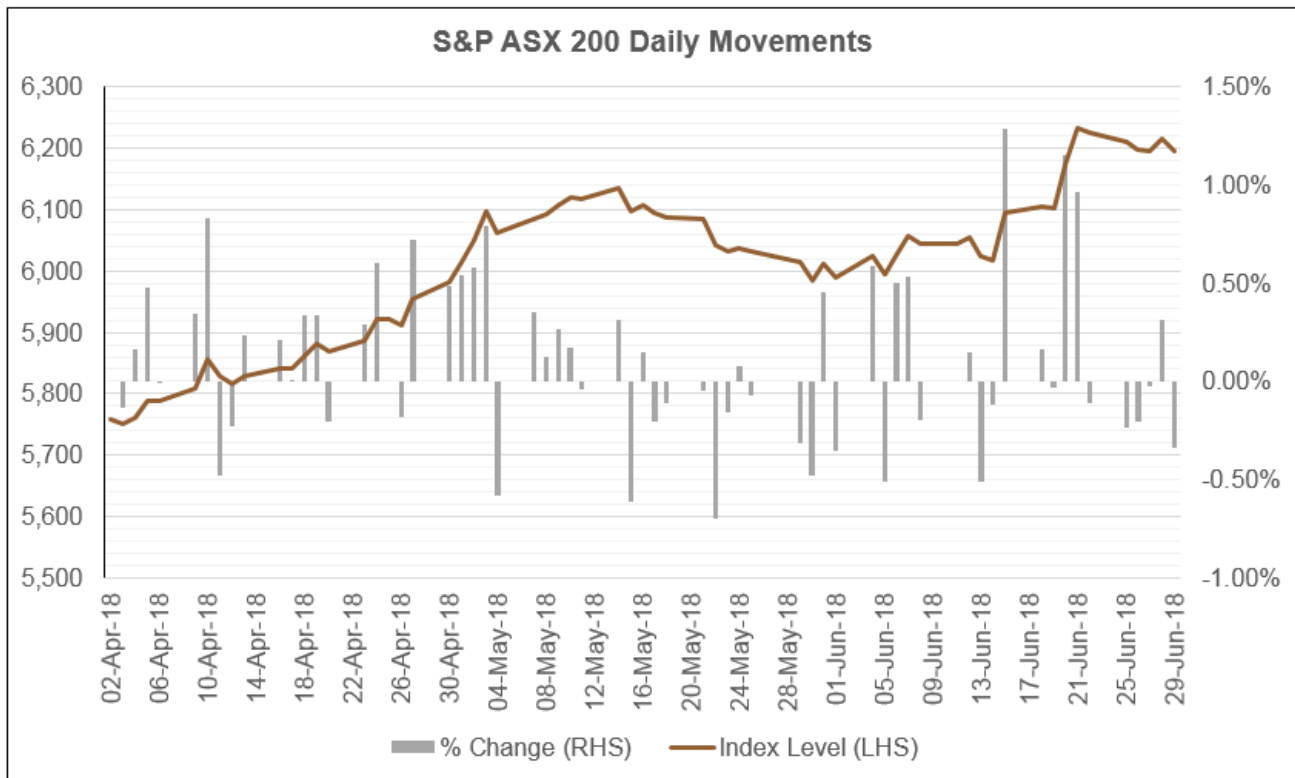
Source: FactSet

Australian Market Sector Performance (S&P ASX 200)

Sector	Qtrly Change	FYTD Change
Energy	19.7%	38.2%
Health Care	16.4%	25.4%
Consumer Staples	11.9%	24.1%
Materials	11.5%	25.2%
Information Technology	10.9%	29.5%
Consumer Discretionary	10.3%	11.4%
Utilities	8.4%	-5.7%
A-REIT	8.2%	7.5%
Industrials	4.2%	3.1%
Financials Ex A-REIT	2.3%	-3.9%
Telecommunications	-13.7%	-34.9%

Source: FactSet

Australian Market Daily Performance



Source: FactSet

June Quarter 2018 Commentary

The Australian market finished the quarter up 7.6%, with Energy (+19.7%) and Health Care (+16.4%) leading the way while Telecommunications (-13.7%) and Financials (+2.3%) lagged.

The broad US market indices finished the quarter higher, with the Dow Jones Industrial Average up 0.7% and the S&P 500 up 2.9%. The technology-heavy NASDAQ finished the quarter up 6.3%. European markets finished the quarter up 2.4%.

The Chicago Board Options Exchange (CBOE) Market Volatility Index (VIX), commonly referred to as the fear index, fell by 19.4% during the quarter.

The Australian Dollar (AUD) fell 3.7% against the US Dollar (USD) to 0.7389 for the quarter.

The US 10 year Government bond yield rose 11.2 basis points (bps) to 2.85%, and the Australian 10 year Government bond yield rose 5.9 basis points (bps) to 2.64% during the quarter. These bonds influence lending rates in the global economy and also provide an indication of future inflation expectations.

The oil price rallied during the quarter with the Brent price up 13.0% to \$79.44. The oil price has since fallen in July, trading at \$72.16 at the time of writing.

Financial Year 2018 Commentary

The Australian market finished the year up 8.3%, with Energy (+38.2%) and Information Technology (+29.5%) leading the way while Telecommunications (-34.9%) and Utilities (-5.7%) lagged.

The broad US market indices finished the year higher, with the Dow Jones Industrial Average up 13.7% and the S&P 500 up 12.2%. The technology-heavy NASDAQ finished the year up 22.3%. European markets finished broadly flat for the year.

The Chicago Board Options Exchange (CBOE) Market Volatility Index (VIX), commonly referred to as the fear index, rose by 43.9% for the year.

The Australian Dollar (AUD) fell 3.7% against the US Dollar (USD) to 0.7389 for the year.

The US 10 year Government bond yield rose 58.3 basis points (bps) to 2.85%, and the Australian 10 year Government bond yield rose 14.3 basis points (bps) to 2.64%. These bonds influence lending rates in the global economy and also provide an indication of future inflation expectations.

The oil price rallied with the Brent price up 65.8% to \$79.44. The oil price has since fallen in July, trading at \$72.16 at the time of writing.

June Quarter 2018 Global Market Commentary

In April, global equity markets rebounded modestly following a weak March. Consumer Staples and Industrials underperformed the most, while Energy, Telecommunications and Utilities outperformed. Australia outperformed, led by Energy and Materials, while Financials were the largest underperformer. The US Dollar (USD) strengthened against all Group of Ten (G10) currencies except the Canadian Dollar. Australian bond yields reversed their March fall with a 20 basis points (bps) rise.

The Australian market outperformed, with the S&P ASX 200 up 3.9% in local currency terms and 2.3% in US Dollar (USD) terms. Higher base metal and oil prices saw Energy (+10.8%) and Materials (+7.6%) outperform the most, while Financials were the major underperformer, likely dragged down by ongoing allegations of misconduct revealed by the Royal Commission, questions over bank-lending standards and high-profile resignations of senior management.

In May, global equity markets ended the month higher. Telecommunications, Financials and Utilities underperformed the most, while Information Technology (IT), Energy and Materials outperformed. Australia underperformed, dragged down by Telecommunications and Consumer Staples, while Health Care, Consumer Discretionary and Real Estate Investment Trusts (REITs) outperformed the most. The US Dollar (USD) strengthened again, but the AUD/USD managed a 0.2c gain. Australian bond yields partly reversed their April rise with a 13 basis points (bps) fall.

The Australian market started the month outperforming on broad based strength, with Resources up more than 7% by 17 May 2018. However the peak in key commodity prices (iron ore and oil) by mid-May led to underperformance. Health Care (+5.6%), Consumer Discretionary (+5.1%) and Real Estate Investment Trusts (REITs) (+3.1%) outperformed, while Telecommunications (-10.2%) and Consumer Staples (-0.4%) underperformed.

In June, developed markets outperformed emerging markets for the third consecutive month. Real Estate Investment Trusts (REITs), Consumer Staples and Utilities outperformed the most, while Industrials, Financials and Materials underperformed. Australia outperformed, helped by Energy, Consumer Staples, Utilities and Financials, but was held back by Telecommunications and Industrials. The US Dollar (USD) strengthened again, seeing the AUD/USD fall to 0.739. US bond yields were broadly steady, while European peripheral spreads remained wide.

The Australian market outperformed on broad based strength across both the Industrials and Resources, with Banks breaking their three consecutive months of underperformance. Energy (+7.8%), Consumer Staples (+6.2%), Utilities (+5.0%) and Financials (+4.1%) outperformed, while Telecommunications (-5.8%) and Industrials (+0.7%) underperformed.

Our View

We remain cautiously optimistic about the market and see it moving higher from here. We expect volatility (i.e. sudden movements up or down) to be an ongoing feature of the market.

We transitioned to our new Investment Programs at the start of July 2018. Here is a brief summary of the changes:

- The amount of growth assets held in each portfolio (Australian and Diversified) has increased and the amount of defensive assets held in each portfolio (Australian and Diversified) has decreased.
- Exposure to growth assets in the Diversified Portfolios is now split approximately 60% to Australian Shares and approximately 40% to International Shares.
- The Australian Share portfolios have been diversified further and the sector exposures have been broadened. We have introduced companies with exposure to Australian Property, for example.
- The Australian Share portfolios are overweight Energy, Health Care, Industrials and Information Technology. The portfolios are underweight Consumer Staples, Financials ex Real Estate Investment Trusts (REITs), Telecommunications and Utilities.
- The International Share portfolios now have 60% exposure to the United States (45% to the S&P 500 and 15% to the technology-heavy NASDAQ), 30% exposure to Europe and 10% exposure to Japan. This allocation clearly demonstrates our preference for exposure to the United States as a higher growth market compared to Europe and Japan. We have zero exposure to Emerging Markets because of the risk attached to investing in these countries.
- The amount of cash held in each portfolio has been restricted to 10-13% in order to maximise returns to clients. Depending on the Investment Program, any surplus cash is being invested in Australian Debt Securities.
- The Australian Debt Securities asset class now includes Hybrid Securities as well as Exchange Traded Funds (ETFs) with underlying investments in Australian (Federal or State) Government and Corporate Debt.

We are also offering clients the opportunity to invest ethically across all seven of our traditional Investment Programs.

The Ethical Portfolios have the same investment parameters as the traditional Investment Programs, and will not invest in any company primarily involved with the following:

1. Gaming
2. Tobacco
3. Mining
4. Oil and Gas

Or because of particular behaviours or incidents that the Investment Committee considers to be significant ethical violations (e.g. human rights abuses, environmental destruction).

Please refer to our previous communications about the Investment Program changes or contact our office if you have any further questions.

Portfolio Additions and Removals

Additions – Australian Share Portfolios

There were no purchases conducted in June Quarter 2018

Additions – Australian Diversified Portfolios

There were no purchases conducted in June Quarter 2018.

Removals – Australian Share Portfolios

The following shares were sold during the June Quarter 2018.

Investment	Full or Part Sale	Date of Sale	Sale Price	Average Unit Cost
CSL Limited (CSL)	Part Sale	16 May 2018	\$178.21	\$89.22
ANZ Convertible Perpetual Capital Note 2 (ANZPE)	Full Sale	4 June 2018	\$98.18	\$100.00
CBA Limited Preference Share Perls VI (CBAPD)	Full Sale	4 June 2018	\$95.69	\$98.05

Removals – Diversified Share Portfolios

The following shares were sold during the June Quarter 2018.

Investment	Full or Part Sale	Date of Sale	Sale Price	Average Unit Cost
CSL Limited (CSL)	Part Sale	16 May 2018	\$178.21	\$113.46
James Hardie Industries PLC (JHX)	Full Sale	16 May 2018	\$23.56	\$20.93

CSL Limited (CSL)

On 16 May the holding of CSL was reduced in the Politis Investment Strategies Australian and Diversified Portfolios.

The CSL stock price has had an exceptional run, appreciating by 14% since the start of April compared to the S&P ASX 200 rising by 6%.

With CSL trading at a 33x Price-to-Earnings (PE) multiple, the Investment Committee decided now was a prudent time to take profits and reduce exposure in the portfolios.

James Hardie Industries PLC (JHX)

On 16 May the holding of JHX was sold in the Politis Investment Strategies Diversified Portfolios.

The JHX stock price has had an exceptional run, appreciating by 37% since September compared to the S&P ASX 200 rising by 7%.

Recently the Investment Committee became concerned about rising input costs for JHX, particularly pulp, a key ingredient in the manufacture of fibre cement siding.

Noting this, the Investment Committee decided now was a prudent time to take profits and exit the position.

ANZ Convertible Perpetual Capital Note 2 (ANZPE)

On 4 June the holdings held in ANZPE were sold in the Politis Investment Strategies Australian Portfolios.

The Investment Committee is actively considering new ways to gain exposure to defensive assets, including Australian Federal and State Government Bonds.

These assets are more liquid (i.e. easier to trade) than hybrid securities such as ANZPE.

Commonwealth Bank Limited Preference Share Perls VI (CBAPD)

On 4 June the holdings held in CBAPD were sold in the Politis Investment Strategies Australian Portfolios.

The Investment Committee is actively considering new ways to gain exposure to defensive assets, including Australian Federal and State Government Bonds.

These assets are more liquid (i.e. easier to trade) than hybrid securities such as CBAPD.

Cash Positions

Politis Australian Growth Portfolio			
	Target Weighting	31 Mar 2018	30 June 2018
Cash	5.00%	14.38%	15.97%
Shares	75.00%	85.62%	84.03%
Total	100.00%	100.00%	100.00%

Politis Australian Balanced Growth Portfolio			
	Target Weighting	31 Mar 2018	30 June 2018
Cash	5.00%	17.46%	23.11%
Shares	75.00%	67.05%	66.75%
Hybrid Securities	20.00%	15.49%	10.14%
Total	100.00%	100.00%	100.00%

Politis Australian Balanced Portfolio			
	Target Weighting	31 Mar 2018	30 June 2018
Cash	5.00%	20.02%	31.40%
Shares	50.00%	45.00%	45.41%
Hybrid Securities	45.00%	34.98%	23.19%
Total	100.00%	100.00%	100.00%

Politis Australian Conservative Portfolio			
	Target Weighting	31 Mar 2018	30 June 2018
Cash	5.00%	23.17%	40.69%
Shares	25.00%	22.59%	23.14%
Hybrid Securities	70.00%	54.24%	36.17%
Total	100.00%	100.00%	100.00%

Politis Australian Capital Stable Portfolio			
	Target Weighting	31 Mar 2018	30 June 2018
Cash	10.00%	29.65%	52.63%
Hybrid Securities	90.00%	70.35%	47.37%
Total	100.00%	100.00%	100.00%

Politis Diversified Growth Portfolio			
	Target Weighting	31 Mar 2018	30 June 2018
Cash	5.00%	9.49%	11.24%
Australian Shares	95.00%	16.22%	15.41%
International Currency		0.00%	0.00%
International Shares		74.29%	73.35%
Total	100.00%	100.00%	100.00%

Politis Diversified Balanced Growth Portfolio			
	Target Weighting	31 Mar 2018	30 June 2018
Cash	5.00%	19.14%	20.23%
Hybrid Securities	20.00%	9.15%	8.75%
Australian Shares	75.00%	12.96%	12.51%
International Currency		0.00%	0.00%
International Shares		58.75%	58.51%
Total	100.00%	100.00%	100.00%

Politis Diversified Balanced Portfolio			
	Target Weighting	31 Mar 2018	30 June 2018
Cash	5.00%	29.90%	30.51%
Hybrid Securities	45.00%	20.72%	20.04%
Australian Shares	50.00%	9.02%	8.73%
International Currency		0.00%	0.00%
International Shares		40.36%	40.72%
Total	100.00%	100.00%	100.00%

Portfolio Update

Politis Australian Growth Portfolio

Portfolio Performance	
1 Month	3.04%
3 Month	6.49%
1 Year	10.40%
2 Year	20.54%
3 Year	22.20%
5 Year	52.88%
Inception (1 Oct 09)	94.31%

Politis Australian Balanced Growth Portfolio

Portfolio Performance	
1 Month	2.32%
3 Month	5.02%
1 Year	8.57%
2 Year	18.53%
3 Year	21.01%
5 Year	46.87%
Inception (1 Oct 09)	86.21%

Politis Australian Balanced Portfolio

Portfolio Performance	
1 Month	1.84%
3 Month	3.68%
1 Year	6.98%
2 Year	16.79%
3 Year	20.37%
5 Year	40.44%
Inception (1 Oct 09)	77.48%

Politis Australian Conservative Portfolio

Portfolio Performance	
1 Month	1.16%
3 Month	2.12%
1 Year	5.18%
2 Year	14.83%
3 Year	19.48%
5 Year	33.83%
Inception (1 Oct 09)	68.73%

Politis Australian Capital Stable Portfolio

Portfolio Performance	
1 Month	0.35%
3 Month	0.43%
1 Year	3.18%
2 Year	12.25%
3 Year	17.70%
5 Year	26.33%
Inception (1 Oct 09)	28.73%

Australian Indices June 2018 Quarter Performance

ASX 200 Market Accumulation Index +8.47%

ASX 200 Property Trust Index +8.17%

ASX 200 Financials Index +2.28% (Exc Property Trusts)

ASX 200 Industrials Index +4.23%

ASX200 Healthcare Index +16.40%

ASX200 Energy Index +19.65%

ASX 200 Consumer Discretionary Index +10.34%

ASX 200 Consumer Staples Index +11.88%

ASX 200 Materials Index +11.55%

ASX 200 Utilities Index +8.42%

ASX 200 Telecoms Index -13.68%

RBA Cash Rate 1.50% unchanged

Portfolio Update

Politis Diversified Growth Portfolio

Portfolio Performance	
1 Month	0.77%
2 Months	0.62%
3 Months	4.44%
6 Months	3.62%
12 Months	9.84%
2 Years	18.42%
Inception (23 May 16)	16.00%

Politis Diversified Balanced Growth Portfolio

Portfolio Performance	
1 Month	0.53%
2 Months	0.44%
3 Months	3.53%
6 Months	2.94%
12 Months	8.25%
2 Years	16.57%
Inception (23 May 16)	14.74%

Politis Diversified Balanced Portfolio

Portfolio Performance	
1 Month	0.61%
2 Months	0.58%
3 Months	2.83%
6 Months	2.52%
12 Months	6.84%
2 Years	14.87%
Inception (23 May 16)	13.76%

International Indices June 2018 Quarter Performance

DOW JONES Index +0.70%

S & P 500 Index +2.93%

NASDAQ Index +6.33%

FTSE Index +8.22%

DAX Index +1.73%

NIKKEI 225 Index +3.97%

HANG SENG Index -3.78%

SHANGHAI Index -10.15%

Gold (Spot \$1,250.45 /Ounce)
US -\$73.40

Oil (Spot) \$79.44 / barrel
US +\$11.80

Australian Dollar

74.07 US cents
- 2.73 US cents

56.09 British Pence
+1.34 British Pence

81.99 Japanese Yen
+0.359 Japanese Yen

5.81 Hong Kong Dollars
- 0.2167 Hong Kong Dollars

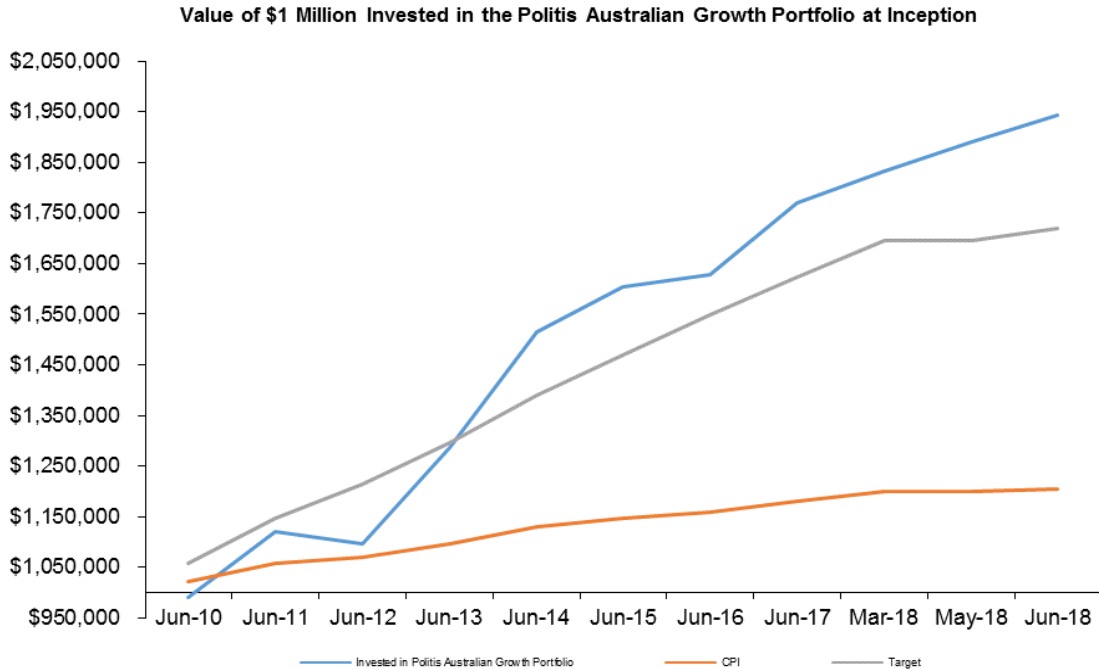
4.9004 Chinese Yuan Renminbi
- 0.0808 Chinese Yuan Renminbi

0.6339 Euros
- 0.0108 Euros

Portfolio Performance

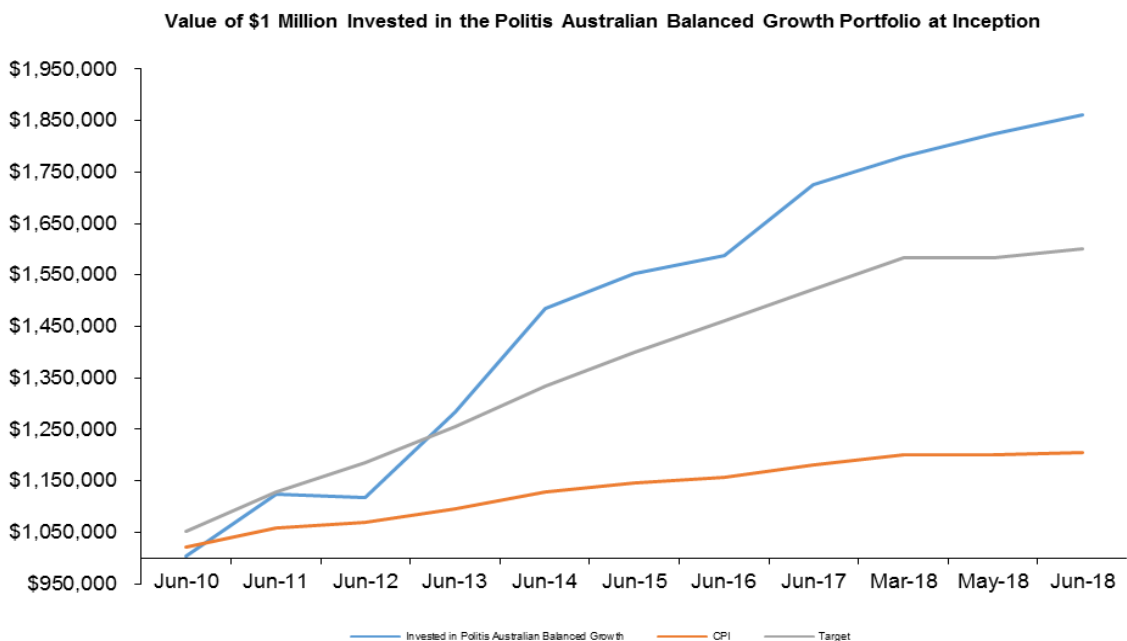
Politis Australian Growth Portfolio

Since inception (October 2009) the Politis Australian Growth Portfolio has seen an increase of 94.31% compared to the Target Return (Consumer Price Index (CPI) +5%) which has seen an increase of 71.86% over the same period, representing an outperformance of 22.44%. \$1 million invested in the growth portfolio at inception would now be valued at \$1,943,061.



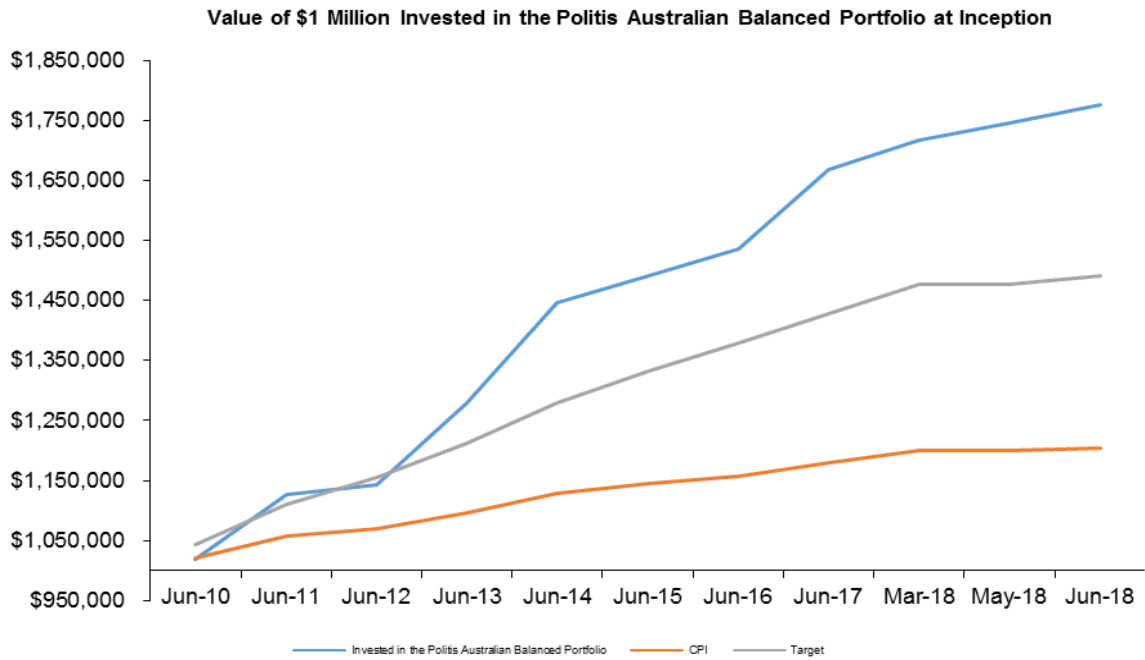
Politis Australian Balanced Growth Portfolio

Since inception (October 2009) the Politis Australian Balanced Growth Portfolio has seen an increase of 86.21% compared to the Target Return (CPI +4%) which has seen an increase of 60.04% over the same period, representing an outperformance of 26.19%. \$1 million invested in the balanced growth portfolio at inception would now be valued at \$1,862,094.



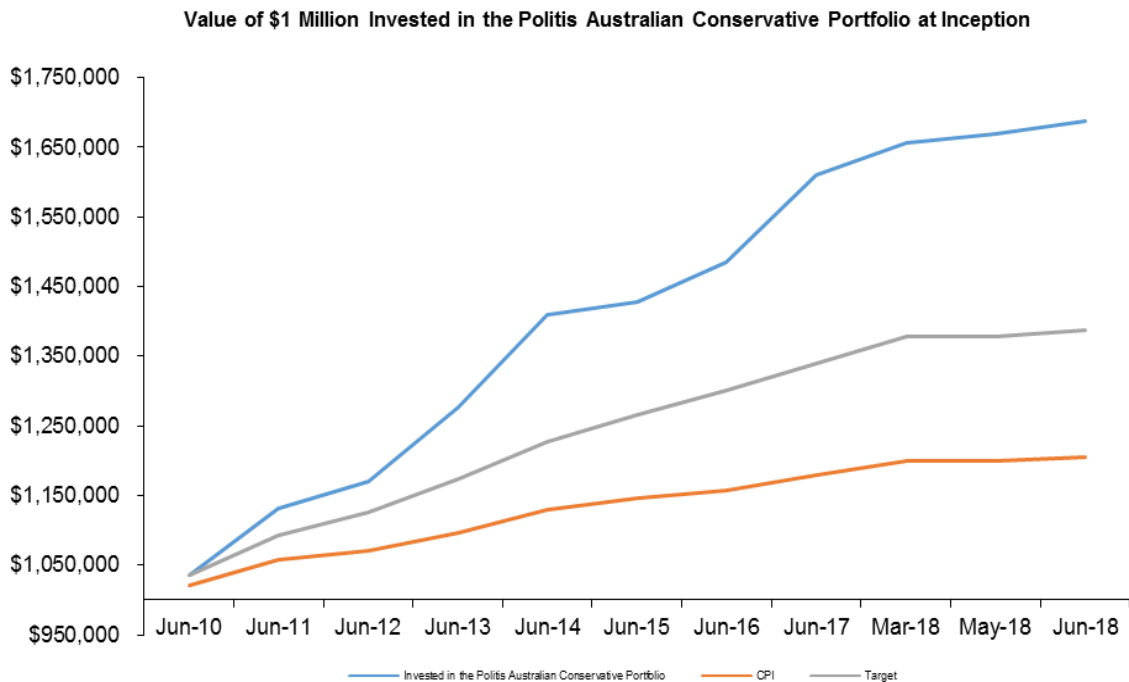
Politis Australian Balanced Portfolio

Since inception (October 2009) the Politis Australian Balanced Portfolio has seen an increase of 77.48% compared to the Target Return (CPI +3%) which has seen an increase of 49.03% over the same period, representing an outperformance of 28.45%. \$1 million invested in the balanced portfolio at inception would now be valued at \$1,774,834.



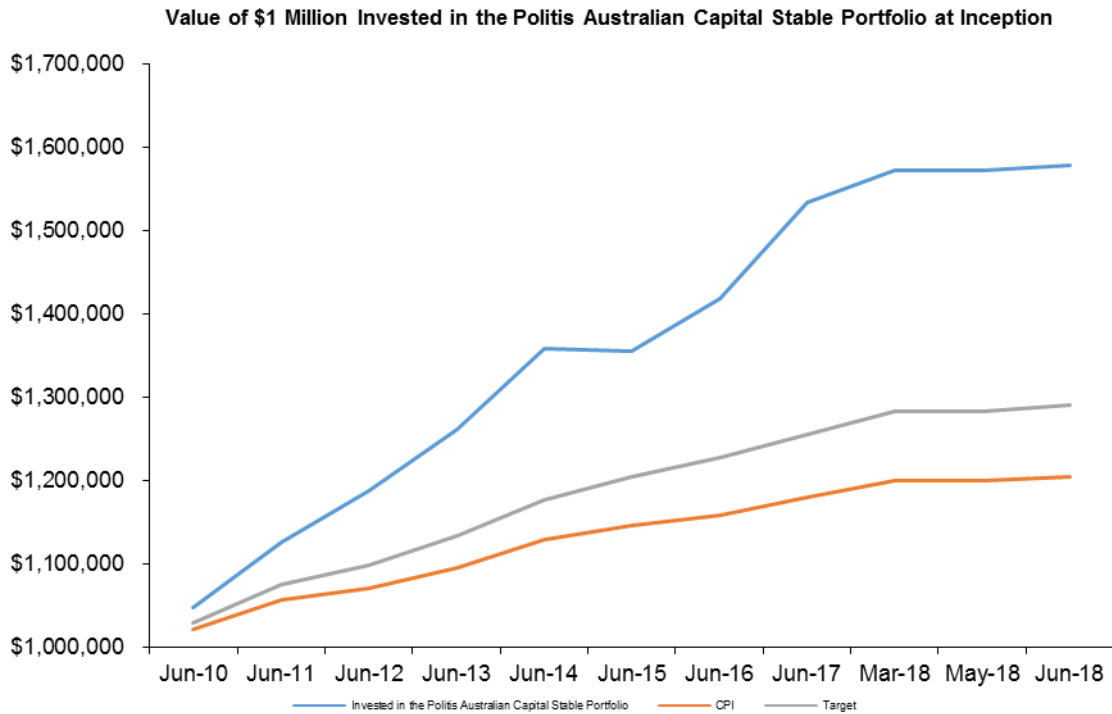
Politis Australian Conservative Portfolio

Since inception (October 2009) the Politis Australian Conservative Portfolio has seen an increase of 68.73% compared to the Target Return (CPI +2%) which has seen an increase of 38.80% over the same period, representing an outperformance of 29.93%. \$1 million invested in the conservative portfolio at inception would now be valued at \$1,687,283.



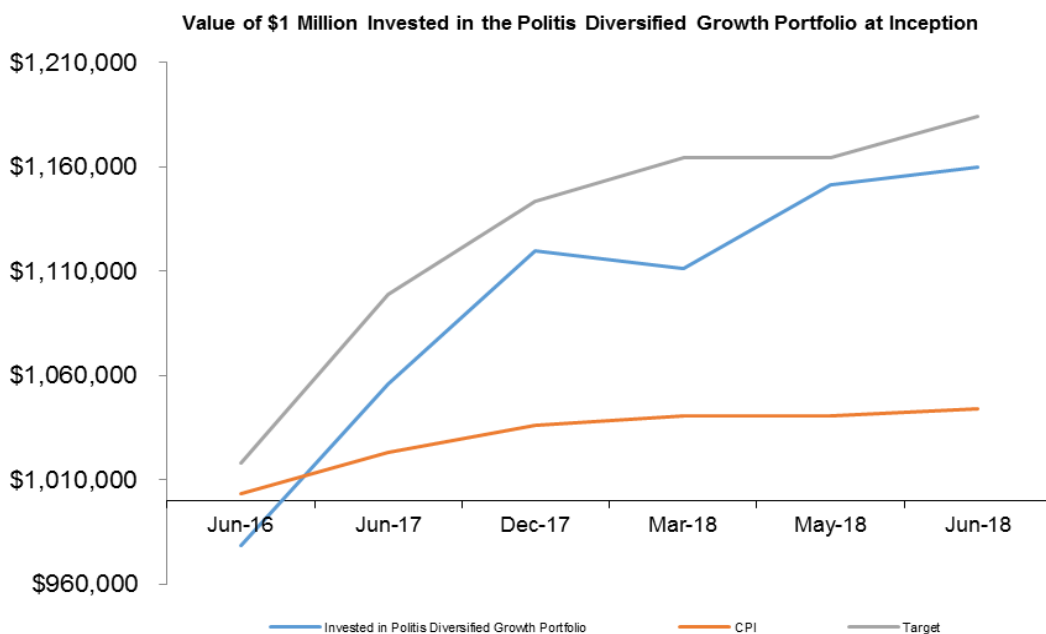
Politis Australian Capital Stable Portfolio

Since inception (October 2009) the Politis Australian Capital Stable Portfolio has seen an increase of 57.75% compared to the Target Return (CPI +1%) which has seen an increase of 29.02% over the same period, representing an outperformance of 28.73%. \$1 million invested in the hybrid income portfolio at inception would now be valued at \$1,577,504.



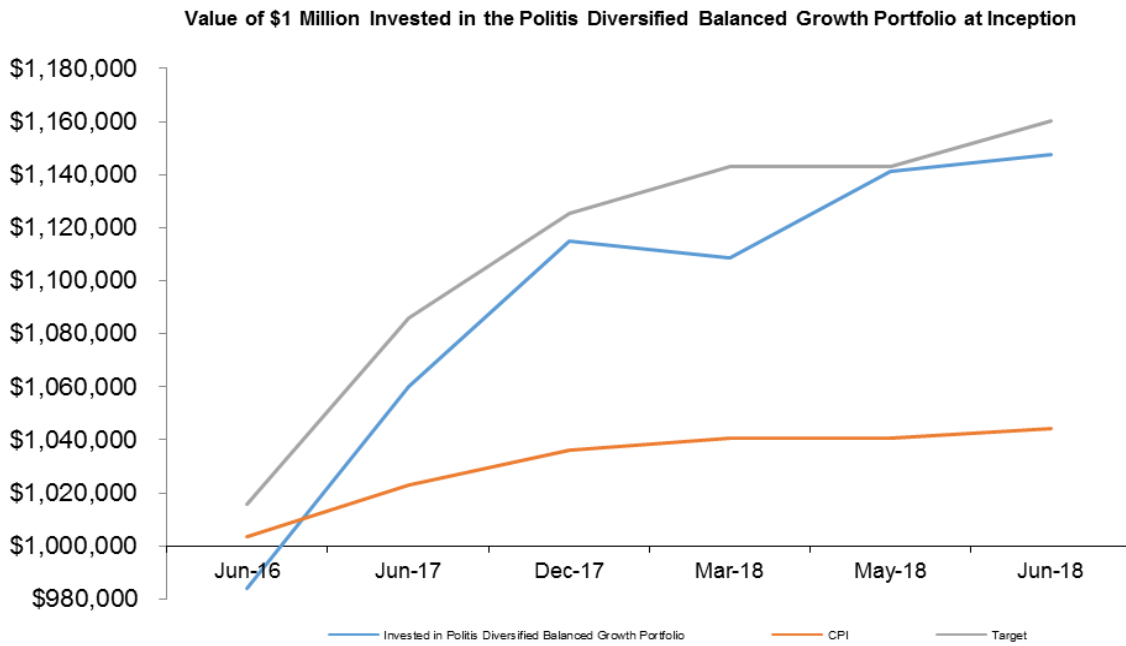
Politis Diversified Growth Portfolio

Since inception (May 2016) the Politis Diversified Growth Portfolio has seen an increase of 16.00% compared to the Target Return (CPI +6%) which has seen an increase of 18.44% over the same period, representing an underperformance of 2.44%. \$1 million invested in the Politis Diversified Growth Portfolio at inception would now be valued at \$1,160,022.



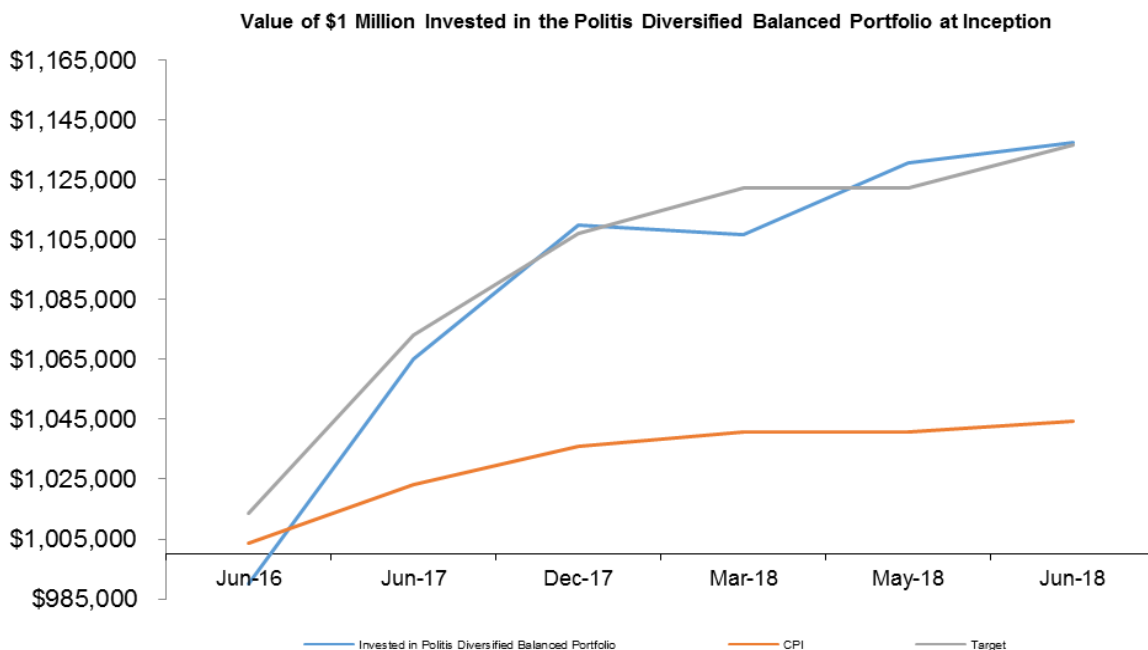
Politis Diversified Balanced Growth Portfolio

Since inception (May 2016) the Politis Diversified Balanced Growth Portfolio has seen an increase of 14.74% compared to the Target Return (CPI +5%) which has seen an increase of 16.04% over the same period, representing an underperformance of 1.30%. \$1 million invested in the Politis Diversified Balanced Growth Portfolio at inception would now be valued at \$1,147,377.



Politis Diversified Balanced Portfolio

Since inception (May 2016) the Politis Diversified Balanced Portfolio has seen an increase of 13.76% compared to the Target Return (CPI +4%) which has seen an increase of 13.66% over the same period, representing an outperformance of 0.10%. \$1 million invested in the Politis Diversified Growth Portfolio at inception would now be valued at \$1,137,607.



Disclaimer - Please note our percentage returns and accumulated valuation figures are calculated using a methodology which accounts for realised and unrealised gains or losses over the specified period (net of share brokerage costs) in addition to investment income including franking credits. Our Returns are calculated on a pre-tax basis and exclude all fees. The performance information reported above is based on historic returns and there is no assurance that these returns are indicative of future returns.

Financial Planning News

Adding Back Limited Recourse Borrowing Balance to Total Super Balance

In the lead up to 30 June 2017 the Government announced that they intended to amend the Total Superannuation Balance provisions such that members of a SMSF with a Limited Recourse Borrowing Arrangement (LRBA) in place would have their share of the loan added to their member balance for the purposes of the Total Super Balance test. This test determines eligibility for a number of strategies including making non concessional contributions or using the “catch-up” of unused concessional contributions.

A Bill has recently been introduced into Parliament which somewhat waters down the original proposal. It is now proposed that the adding back of a member’s share of an LRBA balance will only occur where:

- the LRBA was entered into on or after 1 July 2018 and,
- the individual, whose superannuation interests are supported by the asset held under the LRBA, has met a condition of release with a nil cashing restriction (i.e. reached age 65, retired, is permanently incapacitated or is terminally ill or injured), or
- the lender is a related party of the fund members.

This new measure would ensure that any SMSF member that had met a relevant condition of release could not withdraw funds in order to reduce their Total Superannuation Balance below \$1.6m, then lend money to their SMSF to acquire an asset under an LRBA, and subsequently make additional non-concessional contributions.

Example

Tony (51) is the sole member of his SMSF which holds \$1.2m in accumulation phase. His SMSF enters into an LRBA in July 2018 to acquire a property worth \$800,000. The SMSF pays \$300,000 of the acquisition costs from its assets and borrows to pay the remaining \$500,000. At 30 June 2019, the value of the SMSF’s “other” assets remained the same, the property had increased to \$810,000, and the amount of the outstanding loan was \$499,000.

	July 2018	30 June 2019
Assets		
“Other” Assets	\$900,000	\$900,000
Property	\$800,000	\$810,000
	\$1,700,000	\$1,710,000
Liabilities		
LRBA loan	(\$500,000)	(\$499,000)
Net assets	\$1,200,000	\$1,211,000
Tony’s account balance	\$1,200,000	\$1,211,000

If Tony’s SMSF had borrowed from an unrelated party his Total Superannuation Balance at 30 June 2019 would be \$1,211,000 and:

- His non-concessional contributions cap for 2019/20 (i.e. the following year) would be \$100,000, and
- He would have the ability to trigger a “bring forward” in 2019/20 with a \$300,000 bring forward amount.

However, if Tony’s SMSF had borrowed from a related party his Total Superannuation Balance at 30 June 2019 would be \$1,710,000 (i.e. \$1,211,000 + the outstanding loan balance of \$499,000) and:

- His non-concessional contributions cap for 2019/20 (i.e. the following year) would be \$Nil, and
- He would not be able to trigger a “bring forward” in 2019/20.

If Tony were over the age of 65 (or over preservation age and met a condition of release), then the identity of the lender would be irrelevant.

Please note that the proposed changes are not yet law and if enacted will only apply to Limited Recourse Borrowing Arrangements entered into post 1 July 2018.

If you have any questions with respect to the proposed law changes, please speak to your Financial Planner.

Disclaimer - The information in this newsletter is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on any information in this newsletter, you should consider the appropriateness of it having regard to your objectives, financial situation and needs. In particular, you should seek financial advice prior to acting on any of the information.

POLITIS INVESTMENT STRATEGIES

Head Office Location

1st Floor, NCYC Commercial Centre
91 Hannell St, Wickham NSW 2293

Head Office Postal

PO Box 168, Wickham NSW 2293

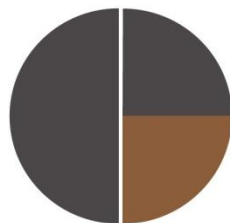
Head Office Contact

T: (02) 4962 5525

F: (02) 4962 5526

reception@politis.com.au

www.politis.com.au



P O L I T I S

INVESTMENT STRATEGIES